



News Release

Media Relations Office

Washington, D.C.

Tel. 202.622.4000

For Release: 10/28/02

Release No: IR-2002-114

IRS REMINDS TAXPAYERS SOME REFINANCING COSTS MAY BE DEDUCTIBLE

WASHINGTON — As thousands of people refinance their home mortgages, the Internal Revenue Service reminds taxpayers that they may be eligible to deduct some costs associated with their loans.

Generally, for taxpayers who itemize, the “points” paid to obtain a home mortgage may be deductible as mortgage interest. Points paid to obtain an original home mortgage can be, depending on circumstances, fully deductible in the year paid. However, points paid solely to refinance a home mortgage usually must be deducted over the life of the loan.

For a refinanced mortgage, the interest deduction for points is determined by dividing the points paid by the number of payments to be made over the life of the loan. Usually, this information is available from lenders. Taxpayers may deduct points only for those payments made in the tax year. For example, a homeowner who paid \$2,000 in points and who would make 360 payments on a 30-year mortgage could deduct \$5.56 per monthly payment, or a total of \$66.72 if he or she made 12 payments in one year.

However, if part of the refinanced mortgage money was used to finance improvements to the home and if the taxpayer meets certain other requirements, the points associated with the home improvements may be fully deductible in the year the points were paid. Also, if a homeowner is refinancing a mortgage for a second time, the balance of points paid for the first refinanced mortgage may be fully deductible at pay off.

Other closing costs – such as appraisal fees and other non-interest fees – generally are not deductible. Taxpayers also should be mindful that the amount of their Adjusted Gross Income can affect the amount of deductions they can take.

For more information on deductions related to refinancing, taxpayers should visit www.irs.gov, Frequently Asked Questions (keyword: refinancing fees), or review Publication 936, “Home Mortgage Interest Deduction.” Tax Topic 504, “Home Mortgage Points,” and Tax Topic 505, “Interest Expenses,” also provide valuable information.

Other tax information on residential real estate can be found in Publication 523, “Selling Your Home,” Publication 527, “Residential Rental Property,” and Publication 530, “Tax Information for First-Time Homeowners.” All publications are available on the IRS Web site or by calling 1-800-829-3676.

X X X